

National Settlement Depository

Financial Statements for the year
ended 31 December 2020
and independent auditor's report

National Settlement Depository

Contents

	Page
Independent auditor’s report	1
Statement of Profit or Loss.....	5
Statement of Comprehensive Income	6
Statement of Financial Position	7
Statement of Cash Flows.....	8
Statement of Changes in Equity	10
Notes to the Financial Statements	
1. Organization.....	11
2. Basis of preparation	12
3. Significant accounting policies	13
4. Critical accounting judgments and key sources of estimation uncertainty	29
5. Changes in presentation	32
6. Fee and commission income.....	32
7. Commission expenses.....	33
8. Interest and other finance income	33
9. Interest expenses	33
10. Net gains from operations with derivatives at fair value through profit or loss	33
11. Other income	34
12. Personnel expenses.....	34
13. Administrative and other operating expenses.....	36
14. Movement in allowance for expected credit losses	36
15. Income tax.....	39
16. Cash and cash equivalents	40
17. Financial assets at fair value through profit or loss	41
18. Due from banks	41
19. Financial assets at fair value through other comprehensive income	42
20. Property and equipment, right-of-use assets and intangible assets	42
21. Other assets	43
22. Balances of market participants.....	43
23. Distributions payable to holders of securities	44
24. Other liabilities	44
25. Share capital and share premium	45
26. Retained earnings	45
27. Commitments and contingencies	46
28. Transactions with related parties	46
29. Capital management	49
30. Fair value measurements.....	49
31. Risk management policies.....	51

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory Board of National Settlement Depository

Opinion

We have audited the financial statements of National Settlement Depository (hereinafter, the "Organization"), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter, "IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter, "ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (hereinafter, the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual report for 2020, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's annual financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these annual financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditors' report. However, future events or conditions may cause the Organization to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Procedures Performed in Accordance with Federal Law No. 395-1 *On Banks and Banking Activities* dated 2 December 1990

Management of the Organization is responsible for compliance with the obligatory ratios established by the Bank of Russia (hereinafter, the “obligatory ratios”), as well as for compliance of the Organization’s internal control and risk management systems with the Bank of Russia (hereinafter, the “CBRF”) requirements.

In accordance with Article 42 of Federal Law No. 395-1 “On Banks and Banking Activities” dated 2 December 1990 (hereinafter, the “Federal Law”), in the course of our audit of the Organization’s annual financial statements for 2020 we performed procedures with respect to the Organization’s compliance with the obligatory ratios as at 1 January 2021 and compliance of its internal control and risk management systems with the CBRF requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Organization’s policies, procedures and methodologies with the CBRF requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

We report our findings below:

1. With respect to the Organization’s compliance with the obligatory ratios: the obligatory ratios as at 1 January 2021 were within the limits established by the CBRF.

We have not performed any procedures with respect to the Organization’s financial information other than those we considered necessary to express our opinion on whether the annual financial statements of the Organization present fairly, in all material respects, the financial position of the Organization as at 31 December 2020, its financial performance and its cash flows for 2020 in accordance with IFRS and Russian Accounting Standards (hereinafter, “RAS”);

2. With respect to compliance of the Organization’s internal control and risk management systems with the CBRF requirements:
 - (a) In accordance with the requirements and recommendations of the CBRF, as at 31 December 2020 the Organization’s internal audit department was accountable to the Organization’s Supervisory Board, and the Organization’s risk management department was not subordinated or accountable to the departments undertaking the respective risks, heads of the Organization’s internal audit and risk management departments meet the qualification requirements set by the CBRF;

- (b) As at 31 December 2020 the Organization’s effective internal policies governing the identification and management of significant risks, including credit, operational, market, liquidity risks, and the performance of stress-testing were approved by the Organization’s competent management bodies in accordance with the CBRF requirements and recommendations;
- (c) As at 31 December 2020 the Organization had a reporting system with regard to the Organization’s significant credit, operational, market, liquidity risks and with regard to the Organization’s capital;
- (d) Frequency and sequential order of reports prepared by the Organization’s risk management and internal audit departments in 2020 on management of credit, operating, market and liquidity risks were in compliance with the Organization’s internal policies; these reports included results of monitoring by the Organization’s risk management and internal audit departments of effectiveness of the Organization’s respective methodologies and improvement recommendations;
- (e) As at 31 December 2020 the authority of the Organization’s Supervisory Board and the Organization’s executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Organization. In order to control the effectiveness and consistency of application of the Organization’s risk management policies, during 2020 the Organization’s Supervisory Board and its executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered the proposed corrective measures.

We have carried out procedures with respect to the Organization’s internal control and risk management systems solely to report on the findings related to compliance of the Organization’s internal control and risk management systems with the CBRF requirements.


Shvetsov Andrei Viktorovich
Engagement leader

19 March 2021



The entity: National Settlement Depository

Audit firm: AO "Deloitte & Touche CIS"

Certificate of state registration № 3294, issued by the Bank of Russia on 27.06.1996

Certificate of state registration № 018.482, issued by Moscow Registration Chamber on 30.10.1992.

Primary state registration number: 1027739132563

Primary state registration number: 1027700425444

Certificate of registration in Unified State Register: № 77 007811464 of 30.08.2002 issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of registration in Unified State Register: № 77 004840299 of 13.11.2002 issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

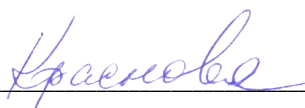
Address: 105066, Moscow, Spartakovskaya str., 12

Member of Self-regulatory organization of auditors Association "Sodruzhestvo", ORNZ 12006020384.

National Settlement Depository

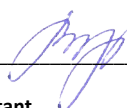
Statement of Profit or Loss for the Year Ended 31 December 2020 (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Fee and commission income	6	7 232 478	6 041 389
Commission expenses	5, 7	(539 737)	(395 732)
Interest and other finance income	5, 8	1 079 208	1 211 121
Interest expenses	5, 9	(349 287)	(325 942)
Net gain from operations with derivatives at fair value through profit or loss	10	1 588 791	1 274 795
Net gain on financial assets at fair value through other comprehensive income		656	20 907
Net gain from foreign exchange transactions and foreign currency revaluation		16 656	4 192
Other income	11	31 585	46 679
Operating income		9 060 350	7 877 409
Personnel expenses	12	(2 046 177)	(1 854 510)
Administrative and other operating expenses	13	(1 714 686)	(1 571 446)
Profit before tax		5 299 487	4 451 453
Income tax expense	15	(1 049 746)	(868 722)
Net profit		4 249 741	3 582 731



Acting Chairman of the Executive Board
M.O. Krasnova

19 March 2021
Moscow

Chief Accountant
I.E. Veremeenko

19 March 2021
Moscow

National Settlement Depository

Statement of Comprehensive Income for the Year Ended 31 December 2020 *(in thousands of Russian Rubles)*

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Net profit		4 249 741	3 582 731
Comprehensive income/(loss) that may be reclassified subsequently to profit or loss			
Movement in investment revaluation reserve for financial assets at fair value through other comprehensive income		122 753	137 995
Movement in revaluation reserve associated with changes in expected credit losses on financial assets at fair value through other comprehensive income	14	(5 606)	1 686
Net gain on investments at fair value through other comprehensive income reclassified to profit or loss		(656)	(20 907)
Income tax relating to items that may be reclassified	15	(23 298)	(23 755)
Comprehensive income that may be reclassified subsequently to profit or loss		93 193	95 019
Total comprehensive income		4 342 934	3 677 750

The notes 1–31 form an integral part of these financial statements.

National Settlement Depository

Statement of Financial Position as at 31 December 2020 (in thousands of Russian Rubles)

	Notes	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	16	322 372 308	150 925 527
Financial assets at fair value through profit or loss	17	532 903	25 595
Due from banks	18	9 191 786	7 693 668
Financial assets at fair value through other comprehensive income	19	12 898 367	20 027 604
Property, equipment and right-of-use assets	20	2 432 197	2 561 093
Intangible assets	20	2 360 754	2 332 955
Current tax prepayments		470 164	-
Deferred tax assets	15	63 607	112 592
Other assets	21	1 284 796	739 280
Total assets		351 606 882	184 418 314
LIABILITIES			
Balances of market participants	22	319 581 069	159 282 722
Distributions payable to holders of securities	23	15 689 206	11 714 145
Current tax payables		33 453	26 492
Other liabilities	24	1 598 031	1 167 381
Total liabilities		336 901 759	172 190 740
EQUITY			
Share capital	25	1 193 982	1 193 982
Share premium	25	1 957 050	1 957 050
Investments revaluation reserve		160 366	67 173
Payments based on the shares of the parent company		-	39 303
Retained earnings	26	11 393 725	8 970 066
Total equity		14 705 123	12 227 574
Total liabilities and equity		351 606 882	184 418 314

The notes 1–31 form an integral part of these financial statements.

National Settlement Depository

Statement of Cash Flows for the Year Ended 31 December 2020 (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES:			
Profit before tax		5 299 487	4 451 453
Adjustments for:			
Depreciation of property and equipment and amortisation of intangible assets	13, 20	887 216	805 065
Other finance income	8	(2 298)	(6 639)
Net change of other accrued income/expense		(192 459)	(76 642)
Net change in payments based on the shares of the parent company	12	12 634	14 797
Net change in interest accruals		281 708	(426 296)
Unrealized (gains)/losses on foreign exchange operations		(3 836)	4 760
Net loss on disposal of property and equipment and intangible assets	13	523	494
Change in allowance for expected credit losses	14	188	3 233
Net (gain)/loss from operations with derivatives at fair value through profit or loss		(505 010)	7 646
Gain on disposal of financial assets at fair value through other comprehensive income		(656)	(20 907)
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Financial assets at fair value through profit or loss		-	13 770
Due from banks		(191 236)	(207 884)
Other assets		(502 363)	(46 044)
Increase/(decrease) in operating liabilities:			
Balances of market participants		135 539 514	77 718 350
Distributions payable to holders of securities		3 583 408	(12 588 951)
Other liabilities		598 608	316 056
Cash flows from operating activities before taxation		144 805 428	69 962 261
Income tax paid		(1 487 262)	(904 354)
Cash flows from operating activities		143 318 166	69 057 907

The notes 1–31 form an integral part of these financial statements.

National Settlement Depository

Statement of Cash Flows for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES:			
Proceeds from disposal and redemption of financial assets at fair value through other comprehensive income		13 542 824	11 147 520
Purchase of financial assets at fair value through other comprehensive income		(6 568 109)	(18 499 804)
Purchase of intangible assets		(805 911)	(624 482)
Purchase of property and equipment		(25 146)	(97 641)
Cash flows from/ (used in) investing activities		6 143 658	(8 074 407)
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES:			
Dividends paid to the shareholders	26	(1 850 000)	(2 757 282)
Cash outflow for lease liabilities		(8 605)	(8 429)
Cash flows used in financing activities		(1 858 605)	(2 765 711)
Effect of changes in foreign exchange rates on cash and cash equivalents		23 843 537	(10 507 859)
Net increase in cash and cash equivalents		171 446 756	47 709 930
Cash and cash equivalents at the beginning of the period	16	150 925 556	103 215 626
Cash and cash equivalents at the end of the period	16	322 372 312	150 925 556

Interest received by NSD during the year ended 31 December 2020 amounted to RUB 1 354 185 thousand (31 December 2019: RUB 773 601 thousand).

Interest paid by NSD during the year ended 31 December 2020 amounted to RUB 349 287 thousand (31 December 2019: RUB 325 942 thousand).

National Settlement Depository

Statement of Changes in Equity for the Year Ended 31 December 2020 (in thousands of Russian Rubles)

	Share capital	Share premium	Payments based on the shares of the parent company	Investments revaluation reserve	Retained earnings	Total equity
31 December 2018	1 193 982	1 957 050	24 506	(27 846)	8 144 617	11 292 309
Net profit	-	-	-	-	3 582 731	3 582 731
Other comprehensive income	-	-	-	95 019	-	95 019
Total comprehensive income for the period	-	-	-	95 019	3 582 731	3 677 750
Dividends declared (Note 26)	-	-	-	-	(2 757 282)	(2 757 282)
Payments based on the shares of the parent company (Note 12)	-	-	14 797	-	-	14 797
31 December 2019	1 193 982	1 957 050	39 303	67 173	8 970 066	12 227 574
Net profit	-	-	-	-	4 249 741	4 249 741
Other comprehensive income	-	-	-	93 193	-	93 193
Total comprehensive income for the period	-	-	-	93 193	4 249 741	4 342 934
Dividends declared (Note 26)	-	-	-	-	(1 850 000)	(1 850 000)
Payments based on the shares of the parent company (Note 12)	-	-	(39 303)	-	23 918	(15 385)
31 December 2020	1 193 982	1 957 050	-	160 366	11 393 725	14 705 123

The notes 1–31 form an integral part of these financial statements.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (in thousands of Russian Rubles)

1. Organization

National Settlement Depository (hereinafter, “NSD”) is the central depository of the Russian Federation, a part of the Moscow Exchange Group. NSD is Russia’s national numbering agency and the substitute numbering agency for the CIS, authorized to assign the international ISIN, CFI, as well as Local Operating Unit of a global system of legal entities identification, authorized to assign LEI codes to the legal entities.

In 2010, Non-Banking Credit Organization Closed Joint-Stock Company MOSCOW INTERBANK CURRENCY EXCHANGE SETTLEMENT HOUSE (hereinafter, “MICEX SH”) was reorganized by merger with Closed Joint-Stock Company National Depository Center (hereinafter, “NDC”). Simultaneously, the name MICEX SH was changed to National Settlement Depository. On May 31, 2016 at Annual General Meeting of Shareholders of NSD the company’s new business name as Joint Stock Company National Settlement Depository was approved to meet revised standards of the Russian Civil Code. The new business name and respective changes to the company’s Charter took effect from 26 July 2016, the day the registration authority recorded new version of the Charter.

NSD’s activities are carried out based on the following licenses:

- License No.3294 issued by the Central Bank of the Russian Federation (hereinafter, “CBR”) on 4 August 2016 for banking operations;
- License of professional stock market participant No.045–12042–000100 issued by the Russian Federal Financial Markets Service (hereinafter, “FFMS”) on 19 February 2009 for depository activities;
- License No.045–00004–000010 issued by FFMS on 20 December 2012 for clearing activities;
- License LSZ No. 0009523, Registration No. 13169 H on 27 September 2013, to provide data encryption services, issued by the Centre for Licensing, Certification and Protection of State Secrets of the Federal Security Service (FSB) of Russia;
- License No.045-01 issued by CBR on 28 December 2016 for repository activities.

NSD functions as an operator of systemically and the nationally important payment system based on the certificate issued by the Bank of Russia on 24 November 2016.

NSD registered address is: 12 Spartakovskaya str., Moscow, 105066, the Russian Federation.

NSD is a subsidiary of Public Joint-Stock Company Moscow Exchange MICEX–RTS (hereinafter, “Moscow Exchange”). As at 31 December 2020 and 31 December 2019, the share of ownership comprised 99,997%.

NSD has no affiliates or representative offices within the Russian Federation or abroad.

NSD is located in the Russian Federation.

As at 31 December 2020, NSD had 542 employees (31 December 2019: 535 employees).

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

1. Organization (continued)

Operating environment. The Russian economy continued to be negatively impacted by the international sanctions imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. The above-mentioned events have led to reduced access of the Russian businesses to international capital markets, economic recession and other negative economic consequences.

Because Russia produces and exports large volumes of oil and gas, its current account and fiscal balance are particularly sensitive to the price of oil and gas on the world market. The slowdown in the global economy, an increase in oil supply on the world market against a decline in its consumption during 2020 led to a decrease in oil prices, which resulted in weakening of Russian Ruble against major currencies.

In addition to that, starting from early 2020, a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational and financial disruption for many companies and have significant impact on the global economy.

The effect of the pandemic on NSD's business largely depends on future developments, which are uncertain and cannot be reliably predicted, including the duration of the pandemic and the impact of new coronavirus spread prevention measures on the world and Russian economy.

NSD has evaluated the potential short-term and long-term implications of COVID-19 and actions taken in response to the pandemic on its financial statements, on the regulatory capital and liquidity position. This evaluation included stress-tests adjusted for potential COVID-19 effect on market volatility.

Management currently believes that it has adequate capital and liquidity position to continue to operate the business and mitigate risks associated with COVID-19 for the foreseeable future. NSD remains vigilant in monitoring day to day changes as the global situation evolves.

NSD has adapted to mentioned events. To ensure the health of employees and maintain uninterrupted operation, a significant part of NSD's staff is transferred to remote work mode. NSD has a well-established mechanism to ensure continuity of its activities and successfully operates in conditions of high volatility and a large number of transactions: during 2020 the exchange has seen an increase in turnover compared to the same period last year. NSD has developed action plans to ensure business continuity under various scenarios.

2. Basis of preparation

Statement of compliance. These Financial Statements (hereinafter, "financial statements") have been prepared in accordance with the International Financial Reporting Standards (hereinafter, "IFRS").

Basis of presentation. These financial statements have been prepared on the assumption that NSD is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in thousands of Russian Rubles, unless otherwise indicated. These financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities that have been measured at fair value.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

2. Basis of preparation (continued)

NSD maintains its accounting records in accordance with RAS. These Financial Statements have been prepared from the statutory-based accounting records and adjusted for the purpose of fair presentation in accordance with IFRS.

The Russian ruble exchange rates applied in the preparation of these Financial Statements are presented below:

	31 December 2020	31 December 2019
USD	73,8757	61,9057
EUR	90,6842	69,3406

Inflation accounting. The Russian economy was considered hyperinflationary until 31 December 2002. As such, NSD applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current as at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

The financial statements approval. The Executive Board approved the financial statements on 19 March 2021.

3. Significant accounting policies

The accounting policies adopted by NSD in the preparation of these financial statements are consistent with those followed in the preparation of NSD's financial statements for the Year ended 31 December 2019.

In the current period, NSD has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for reporting periods ending 31 December 2020:

- Amendments to the Conceptual Framework for Financial Reporting
- Amendments to IFRS 3 "Definition of business"
- Amendments to IAS 1 и IAS 8 "Definition to Material"
- Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest rate benchmark reform"
- Amendments to IFRS 16 "Covid-19-Related Rent Concessions"

The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to NSD's accounting policies that have affected the amounts reported for the current or prior period.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and deposit accounts with banks with maturity up to one business day. Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Financial assets. All financial assets are measured at fair value at initial recognition, including transaction costs, except for those financial assets classified as at fair value through profit or loss (hereinafter, "FVTPL").

Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost (hereinafter, "AC") or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- Financial assets should be measured at amortised cost if both of the following criteria are met:
 - (a) Financial asset is held within a business model with the objective to collect the contractual cash flows; and
 - (b) The contractual cash flows of financial asset are solely payments of principal and interest on the principal amount outstanding (hereinafter, "SPPI");
- Financial assets should be measured at fair value through other comprehensive income (hereinafter, "FVTOCI") if both of the following criteria are met:
 - (a) Financial asset is held within a business model with the objective both to collect the contractual cash flows and to sell the financial assets; and
 - (b) The contractual cash flows of financial assets are SPPI;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. NSD determines the business models on the basis that reflects how groups of financial assets are managed together to achieve a particular business objective. NSD's business models do not depend on management's intentions for an individual instrument; therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

NSD has several business models for managing its financial instruments that reflect how NSD manages its financial assets in order to generate cash flows. NSD's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

NSD considers all relevant information available when making the business model assessment. However, this assessment is performed not on the basis of scenarios that NSD does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. NSD takes into account the following relevant evidence available such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to NSD's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.

At initial recognition of a financial asset, NSD determines whether newly recognised financial asset is part of an existing business model or whether it reflects the commencement of a new business model, if the asset does not match the existing business models. NSD reassesses its business models every reporting period to determine whether they have changed or not since the preceding period.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Debt instruments at amortised cost or at FVTOCI. NSD assesses the classification and measurement of a financial asset based on contractual cash flow characteristics of the asset and NSD's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest accrued on principal amount outstanding consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is performed in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are not related to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell.

NSD does not designate assets at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

Reclassifications. If the business model under which NSD holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassification NSD's financial assets. During the current financial year and previous accounting period there was no change in the business model under which NSD holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Impairment. NSD recognises loss allowances for expected credit losses (hereinafter, “ECLs”) on the following financial instruments, not measured at FVTPL:

- Due from banks;
- Cash and cash equivalents;
- Debt securities;
- Other financial assets subject to credit risk.

No loss allowances for expected credit losses are recognised on equity investments, financial assets arising from intragroup transactions.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those possible default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

Loss allowance for full lifetime ECL is required for a financial instrument if the credit risk attributable to that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided below.

ECLs are a probability-weighted estimate of the present value of potential credit losses. ECLs are measured as the present value of the difference between the cash flows due to NSD under the contract and the cash flows that NSD expects to receive arising from the weighting of multiple future economic scenarios.

NSD measures ECLs on an individual basis or on a collective basis for portfolios of debtors that share similar value and economic risk characteristics.

Definition of default. Critical to the determination of ECLs is the definition of default. The definition of default is used in measuring the amount of ECLs and in the determination of whether the loss allowance is based on 12-month or lifetime ECLs, as default is a component of the probability of default (hereinafter, “PD”) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

NSD considers the following as constituting an event of default:

- The counterparty has gone bankrupt;
- A third party has filed a claim with the court to call the counterparty bankrupt and it has been accepted for hearing;
- The counterparty is permanently insolvent, i.e. has obligations to NSD that are past due for over 90 days; or
- The counterparty’s license has been revoked.

Significant increase in credit risk. NSD monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk NSD will measure the loss allowance based on lifetime ECL.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

When assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, NSD compares the risk of a default occurring to the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default that was anticipated for the remaining maturity at the reporting date when the financial instrument was first recognised. In making this assessment, NSD considers both quantitative and qualitative information that is reasonable, including historical experience and forward-looking information that is available without undue cost or effort, based on NSD's historical experience and expert credit assessment including forward-looking information.

When an asset becomes past due for up to 30 days, and not less than a half of the counterparty's credit ratings issued by international rating agencies declined or internal credit rating declined by 3 grades or more since initial recognition, NSD considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECLs.

Probability of default (PD). Multiple economic scenarios form the basis of determination of the probability of default at initial recognition and for the future. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

To determine PD NSD uses available data from international rating agencies; or internal ratings if the data mentioned above is unavailable.

NSD allocates its counterparties to a relevant internal rating depending on their credit quality based on quantitative and qualitative information. The historical PD is identified using a migration matrix, where internal ratings are mapped to the rating scales of international rating agencies for those counterparties that are not rated by international rating agencies.

Modification and derecognition of financial assets. A modification of a financial asset occurs when the contractual terms governing cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified NSD assesses whether this modification results in derecognition. In accordance with NSD's policy a modification results in derecognition when it gives rise to substantially different terms. To determine whether the modified terms differ substantially from the original contractual terms NSD considers the following qualitative factors:

- (a) Contractual cash flows after modification are no longer SPPI;
- (b) Change in currency;
- (c) Change of counterparty;
- (d) The extent of change in interest rates;
- (e) Maturity.

If these do not clearly indicate a substantial modification, then quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10%, NSD deems the arrangement is substantially different leading to derecognition.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

In the case when the financial asset is derecognised the loss allowance for ECLs is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date.

The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the eventual occasions where the new asset is considered to be originated-credit impaired. NSD monitors credit risk of modified financial assets by evaluating qualitative and quantitative information.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, NSD determines whether the credit risk associated with the financial asset has increased significantly since initial recognition by comparing the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with the remaining lifetime PD at the reporting date based on the modified terms.

Where a modification does not lead to derecognition, NSD calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then NSD measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

NSD derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If NSD neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, NSD recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If NSD retains substantially all the risks and rewards of ownership of a transferred financial asset, NSD continues to recognise the financial asset.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in other comprehensive income (hereinafter, "OCI") and accumulated in equity is recognised in profit or loss. The cumulative gain/loss on equity investment designated as measured at FVTOCI, previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when NSD retains an option to repurchase part of a transferred asset), NSD allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Write-off. Financial assets are written off when NSD has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when NSD determines that the counterparty does not have assets and/or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. NSD may apply enforcement activities to financial assets written off. Recoveries resulting from NSD's enforcement activities will result in impairment gains.

Presentation of allowance for ECL in the statement of financial position. Loss allowances for ECL are presented in the statement of financial position as follows:

- For financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve.

Financial liabilities at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that NSD manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with NSD's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

Other financial liabilities. Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method (for details of the effective interest method see the Interest income and interest expense section further).

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Derecognition of financial liabilities. NSD derecognises financial liabilities when, and only when, NSD's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When NSD exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, NSD accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Derivative financial instruments. NSD enters into derivative financial instruments, some of which are held for trading while others are held to manage its exposure to foreign exchange rate risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain/loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

Property and equipment. Property and equipment purchased after 1 January 2003 is recognised at initial cost less accumulated depreciation and accumulated impairment losses (if any). Property and equipment purchased before 1 January 2003 is recognised at initial amount adjusted for inflation less cumulative depreciation and accumulated impairment losses (if any).

Useful lives of property and equipment. Depreciation is accrued to write down the cost of property and equipment (except land and assets under construction) less residual value on a straight-line basis over their useful lives:

Buildings and structures	2%
Furniture and equipment	20–38%
Motor vehicles	14–32%
Right-of-use assets	10%

Freehold land is not depreciated.

Estimated useful lives, carrying amount and depreciation period are reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

Depreciation of assets under construction commences from the date the assets become available for service.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets. Intangible assets are carried at acquisition cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is charged on a straight-line basis throughout the useful life of the intangible assets at the annual rates:

Licenses	20%
Trademarks	25%
Computer software	14–50%

Estimated useful lives and amortisation period are reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally developed intangible assets. Development costs that are directly associated with the production of identifiable and unique software products controlled by NSD are capitalised and an internally generated intangible asset is recognised only if it is probable that it will generate economic benefits exceeding costs beyond one year and the development costs can be measured reliably. An internally generated intangible asset is recognised only if NSD has the technical feasibility, resources and intention to complete the development and to use the product. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets. At the end of each reporting period, NSD reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, NSD estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows is discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Lease. NSD as lessee. NSD assesses whether a contract is or contains a lease, at inception of the contract. NSD recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with lease term of 12 months or less) and leases of low value assets. For these leases, NSD recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate as the rate implicit in the lease cannot be readily determined. The incremental borrowing rate is determined using the most recent CBR statistics on loan interest rates in the same currency and of the same term.

The lease payments included in the measurement of the lease liability comprise:

- Fixed payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is presented within other liabilities in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

NSD remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- There is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case the revised discount rate is used);
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use asset comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the obligation for costs to dismantle and remove a leased asset is incurred or an obligation to restore the site on which it is located or restore the underlying asset to the condition required by the terms of the lease, a provision is recognized and measured under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that NSD expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented within the line property, equipment and rights-of-use assets in the statement of financial position.

NSD applies IAS 36 "Impairment of assets" to determine whether a right-of-use asset is impaired and to account for the impairment.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "administrative and other operating expenses" in the statement of profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. NSD has not used this practical expedient.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

NSD as lessor. NSD classifies leases as finance or operating leases and account for those two types differently. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease (NSD does not have such contracts). All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income and interest expense. Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at fair value through profit or loss are recognised in 'Interest and other finance income' in the profit or loss using the effective interest method.

The effective interest rate (hereinafter, "EIR") is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Fee and commission income and expense. Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). Revenue for services provided over a period is recognised pro rata over the contractual term and consists of commission income on operations with long-term financial instruments, depository fees, and other.

Fee and commission expenses with regards to services are accounted for as the services are received.

Taxation. Income tax expense comprises current and deferred tax.

Current income tax. Current tax expense is calculated based on the statutory taxable income for the year. Taxable profit differs from profit as reported in the statement of comprehensive income by items of income or expense that are taxable or deductible in other years and further excludes items that are never taxable or deductible. Current income tax liabilities are measured using statutory tax rates introduced before the end of the reporting period.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Deferred income tax. Deferred income taxes are provided for all temporary differences arising between the carrying amounts of assets and liabilities recognised in financial accounting and their tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences provided that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Tax assets and liabilities are not recognised if temporary differences arise from goodwill or from the initial recognition of an asset or liability in a transaction (except for business combinations) and affect neither taxable nor accounting profit.

Operating taxes. In the Russian Federation where NSD performs its activity, there are other requirements to accrue and pay taxes other than income tax applicable to NSD's activity. Such taxes are recognised as part of administrative and other operating expense in the Statement of Comprehensive Income.

Provisions. Provisions are recognised when NSD has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Contingencies. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Payments based on the shares of the parent company. The Moscow Exchange Group grants to some NSD's employees:

- The right to purchase equity based instruments of the Moscow Exchange on the terms settled in the individual contracts, which gives the option to either buy the specified number of shares at the strike price, or also sell the shares at the market price for the total value stipulated in the contract; such rights are accounted for as share-based payments that are settled in equity instruments;
- The right to receive equity based instruments of the Moscow Exchange under the conditions defined in the long-term incentive program based on shares, which provides for cash payments with the subsequent possibility of the employee acquiring ordinary shares of the Moscow Exchange. Such rights are accounted for as share-based payments that are settled in cash.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity (within Share-based payments reserve) / as part of liabilities (for the long-term incentive program based on shares), over the period in which the performance and/or service conditions are fulfilled.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and NSD's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense (Note 12).

Depository activities. NSD provides depository services to its customers, which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the depository activities are not included in NSD's Financial Statements. NSD accepts the operational risk on these activities, but NSD's customers bear the credit and market risks associated with such operations. Revenue for provision of depository services is recognised as services are provided.

Foreign currencies. Monetary assets and liabilities denominated in foreign currencies are translated at the Russian ruble exchange rate as at the reporting date. Transactions in currencies other than functional currency are recorded at the exchange rate ruling at the date of the transaction. Gains or losses from such transactions are included into gains arising from foreign currencies recognised in other income.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

New and revised IFRSs in issue but not yet effective. At the date of authorisation of these financial statements, NSD has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

New or amended standard or interpretation	Effective date – for annual periods beginning on or after
IFRS 17 <i>Insurance Contracts</i>	1 January 2023
Amendments to IAS 1 <i>Classification of Liabilities as Short-Term or Long-Term (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles)</i>	1 January 2023
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 <i>Interest Rate Benchmark Reform – Phase 2</i>	1 January 2021
Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Date to be determined by the IASB
Amendments to IAS 37 <i>Provisions, contingent liabilities and contingent assets - Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
Amendments to IAS 16 <i>Property and equipment - Proceeds before Intended Use</i>	1 January 2022
Amendments to IFRS 3 <i>Definition of business</i>	1 January 2022
Amendments to IAS 8 <i>Definition of Accounting Estimates</i>	1 January 2023
Amendments to IAS 1 <i>IFRS Practice Statement 2 “Disclosure of Accounting Policies”</i>	1 January 2023
Annual Improvements to IFRS 2018-2020 cycles Amendments to IFRS 1, IFRS 9, IAS 41; and illustrative examples accompanying IFRS 16	1 January 2022

The management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of NSD in future periods, except as noted below:

Amendments to IAS 1 *Classification of Liabilities as Short-Term or Long-Term (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles)*. The amendments are intended to facilitate the understanding that a liability is classified as long-term if the organization expects and has the authority to refinance the liability or postpone its maturity by at least 12 months after the reporting period under the existing credit line with the previous lender, on equal or similar terms.

The amendments only amend the presentation of liabilities in the statement of financial position, i.e. not regarding the amount, the moment of recognition or disclosure of information.

The amendments clarify that the classification should be based on the existence at the end of the reporting period of the right to defer repayment of a liability for at least 12 months. Thus, the amendments explicitly indicate that only those rights that exist “at the end of the reporting period” should affect the classification of the liability. Moreover, the classification does not depend on expectations as to whether the organization will use the right to defer repayment of the liability, which means transferring funds, equity instruments, or other assets or services to a counterparty.

The amendments apply retrospectively to the periods beginning on or after January 1, 2023. Early application is acceptable.

The management do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of NSD in future periods.

National Settlement Depository

Notes to the Financial Statements
for the Year Ended 31 December 2020 (continued)
(in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform — Phase 2.

The changes in Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) relate to the impact of the interest rate benchmark reform on the modification of financial assets, financial liabilities and lease liabilities, hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting.

Modification of financial assets, financial liabilities and lease liabilities. The IASB introduces a practical expedient for changes in contractual cash flows as a direct consequence of the interest rate benchmark reform provided that the new cash flow basis is economically equivalent to the original basis. According to the practical exception these modifications are accounted prospectively for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16.

Disclosures. The amendments require that an entity discloses additional information in order to allow users to understand the nature and extent of risks arising from the IBOR and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

The amendments are effective for annual periods beginning on or after 1 January 2021 and are to be applied retrospectively. Early application is permitted. Restatement of prior periods is not required, however, an entity may restate prior periods if, and only if, it is possible without the use of hindsight.

The management of NSD does not expect that the application of these amendments could have an impact on NSD's financial statements in future periods.

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the board; however, earlier application of the amendments is permitted.

The management of NSD anticipates that the application of these amendments may have an impact on NSD's financial statements in future periods should such transactions arise.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Amendments to IAS 8 Definition of Accounting Estimates. The changes to IAS 8 focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates.
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- The Board clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods.

The amendments are effective for annual periods beginning on or after 1 January 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

The management of NSD does not expect that the application of these amendments could have an impact on NSD's financial statements in future periods.

Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies. Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) amends IAS 1 in the following ways:

- The company is now required to disclose its material accounting policy information instead of its significant accounting policies;
- Several paragraphs are added to explain how the company can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;
- The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- The amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements;
- And the amendments clarify that if the company discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

In addition, IFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information in order to support the amendments to IAS 1.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. Once the company applies the amendments to IAS 1, it is also permitted to apply the amendments to IFRS Practice Statement 2.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

The management of NSD does not expect that the application of these amendments could have an impact on NSD's financial statements in future periods.

Annual Improvements to IFRS 2018-2020 Cycles. The list of amendments includes amendments to the three standards, as well as annual improvements to the Board, which are changes that clarify the wording or eliminate minor inconsistencies, omissions, or contradictions between the requirements in the standards.

- **The amendments to IFRS 3** Business Combinations update the reference in IFRS 3 to the Conceptual Framework for Financial Statements without changing the accounting requirements for a business combination.
- **Amendments to IAS 16** Property, Plant and Equipment prohibit deducting from the value of property, plant and equipment the amounts received from the sale of manufactured goods while preparing the asset for its intended use. Instead, these sales revenue and related costs are recognized in profit or loss.
- **Amendments to IAS 37** "Provisions, Contingent Liabilities and Contingent Assets" determine the costs to be included in assessing whether the contract is unprofitable.
- Annual improvements introduce minor amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IAS 41 "Agriculture" and illustrative examples accompanying IFRS 16 "Leases".

All amendments are effective on January 1, 2022, early application is permitted.

The management of NSD does not expect that the application of these amendments could have an impact on NSD's financial statements in future periods should such transactions occur.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying NSD's accounting policies, management is required to make judgments, assumptions and estimates about carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant under certain circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the change affects only the respective period, and in future periods if the change affects both current and future periods.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Judgements and critical estimates made by NSD in the process of applying the accounting policies were consistent with those disclosed in the annual consolidated financial statements for the Year ended December 31, 2019, except for the following updates made to expected credit loss (ECL) estimation model:

- Refined approach to Loss Given Default (LGD) estimation:
 - Country creditworthiness is applied (in addition to the own creditworthiness of counterparties);
 - Adjustments in terms of counterparty types (scales for sovereign entities and systemically important institutions added);
- Refined approach to probability of default (PD) estimation:
 - Assessment horizons for bonds have been adjusted;
- Refined approach to exposure at default (EAD) estimation:
 - Cash-flow valuation method adjusted in accordance with impairment stages;
 - Cash flows are now discounted using the effective interest rate (previously - risk free rate);
- Updated macro-adjustments calculation methodology: analysis of cycles based on dynamics of macroeconomic indices (GDP, consumer price index, money supply M1, industrial production index, processing industry index etc.) has been replaced with 1Y and 2Y Russian CDS quotes indicative of cyclical phase shift.

These updates in methodology itself (model effect) did not significantly impact the amount of the expected credit loss allowance.

Key sources of critical accounting judgments

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. NSD determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective (for more details refer to Note 3). NSD monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. NSD conducts assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change and so a prospective change to the classification of those assets.

Significant increase of credit risk. As explained in Note 3, expected credit losses are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased NSD takes into account the information listed in Note 3.

Useful lives of fixed and intangible assets. NSD annually reviews the expected useful life of fixed and intangible assets. When determining the useful life of an asset, the following factors are taken into account: expected use of the asset, normal life cycle, technical obsolescence, etc.

National Settlement Depository

Notes to the Financial Statements
for the Year Ended 31 December 2020 (continued)
(in thousands of Russian Rubles)

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Determination of the lease term. NSD leases office buildings from third parties under perpetual contracts, which are automatically renewed if neither party notifies the other party of the termination of the contract 12 months before the expected date of termination. NSD determines the term of the lease without the right to early termination under such contracts, taking into account the penalties that may be imposed if they are terminated, including such economic incentives as improving the leased property, the cost of moving or the significance of the premises for NSD's activities. As a result, the lease term of the most important office buildings is defined as 10 years.

Deferred income tax assets recognition. The recognised deferred tax assets represent amount of income tax, which may be recovered through future income tax expenses and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances. Refer to Note 15.

Key sources of estimation uncertainty

Probability of default. PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See Note 31 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

Loss Given Default. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See Note 3 for more details.

Impairment of fixed and intangible assets. At the end of each reporting period, NSD assesses the recoverable amount of fixed and intangible assets to determine whether there is any indication of impairment. Regardless of whether there is any indication of impairment, an entity also reviews an intangible asset with an indefinite useful life or an intangible asset that is not yet available for use for impairment at least annually. If the calculated recoverable amount of an asset (CRAA) is lower than its carrying amount, the carrying amount of the asset (CAA) is reduced to its recoverable amount. An impairment loss is recognised in the statement of comprehensive income.

Valuation of financial instruments. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same;
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 30.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Share-based payments. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the instrument and volatility and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 12.

5. Changes in presentation

For the purpose of better presentation of NSD's interest income and expenses changes have been made to the following items of statement of profit or loss compared to the statement of profit or loss for the year ended 31 December 2019.

	As previously reported	Reclassification	As presented in these financial statements
Interest and other finance income	1 206 469	(1 206 469)	-
Interest and other finance income	-	1 211 121	1 211 121
Interest expenses	-	(325 942)	(325 942)
Commission expenses	(717 022)	321 290	(395 732)

6. Fee and commission income

	Year ended 31 December 2020	Year ended 31 December 2019
Depository services	5 368 867	4 608 414
Collateral management services and clearing services	1 072 552	711 721
Settlement services	489 218	495 146
Information services	128 808	95 480
Sale of technical services	90 347	75 529
Repository services	82 686	55 099
Total fee and commission income	7 232 478	6 041 389

With effect from 1 January 2020, NSD applied a new tariff for foreign currency bank accounts, according to which NSD charges negative interest on participants' balances in foreign currencies which correspond to the currency of placement in the correspondent banks. The maintenance fee for such accounts is recognized in fee and commission income, negative interest rate is recognized in interest expenses on correspondent accounts with banks (Note 9) and interest income is recognized in interest income on balances of market participants (Note 8).

Fee and commission income for depository operations includes fees for storage, for the volume of transactions processed, and for other depository services. The custody fee charged to clients is based on the nominal value of fixed-income securities, resulting in a stable annual income for NSD. The fee for holding shares is linked to their market valuation.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

7. Commission expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Depository service commissions	440 759	315 250
Bank commissions	52 126	40 751
Registrar services	32 927	30 707
Other	13 925	9 024
Total commission expenses	539 737	395 732

8. Interest and other finance income

	Year ended 31 December 2020	Year ended 31 December 2019
Income gain on financial assets at fair value through profit or loss		
Net gain on financial assets at fair value through profit or loss	2 298	6 639
Total gain on financial assets at fair value through profit or loss	2 298	6 639
Interest income on financial assets other than at fair value through profit or loss		
Interest income on financial assets at fair value through other comprehensive income	758 060	1 125 928
Interest income on balances of market participants	245 012	-
Interest income on deposits with the CBR	47 796	58 536
Interest income on correspondent accounts with other banks	26 042	20 018
Total interest income on financial assets other than at fair value through profit or loss	1 076 910	1 204 482
Total interest and other finance income	1 079 208	1 211 121

9. Interest expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Interest expenses on correspondent accounts with banks	344 854	321 290
Interest expense on lease liabilities	4 433	4 652
Total interest expenses	349 287	325 942

10. Net gains from operations with derivatives at fair value through profit or loss

In 2020 and 2019, NSD performed currency swap deals at the currency exchange market of Moscow Exchange Group and on the OTC market for the purpose of liquidity regulation in various currencies and diversification of the profit sources (Note 17).

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

11. Other income

	Year ended 31 December 2020	Year ended 31 December 2019
Income from lease	29 164	28 216
Write-off of accounts payable	564	276
Property tax refund	-	15 405
Other	1 857	2 782
Total other income	31 585	46 679

12. Personnel expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Personnel expenses except payments based on the shares of the parent company	1 686 208	1 534 721
Payroll related taxes	347 335	304 992
Net change in payments based on the shares of the parent company	12 634	14 797
Total personnel expenses	2 046 177	1 854 510

In July 2020 the new long-term incentive program of equity settled instruments was introduced by the Group (hereinafter, "LTIP"). Program participants have the right to receive Moscow Exchange ordinary shares granted under conditions set out in the program. The LTIP program vests when employee continues to be employed by the Moscow Exchange Group at the vesting date and the Moscow Exchange Group fulfills certain financial performance results set by the program. The maximum contractual term of the contracts is five years. Program participants are entitled to receive the cash equivalent of a fixed and variable number of shares, where variable number is defined as product of fixed number of shares and the sum of dividend yields for the three years preceding the vesting date. The received cash equivalent is used to purchase shares of Moscow Exchange from a company of the Moscow Exchange. The cash equivalent of a fixed and variable number of shares is revalued at each reporting date and the payment date.

The previous program of equity settled instruments continues along with the LTIP. Rights to purchase equity instruments granted to some employees give holders a choice either to only purchase the full number of shares at exercise price or also to sell back shares at the market price for the same ruble value. The majority of the rights vest when the employee continues to be employed by the Moscow Exchange Group at the vesting date. The maximum contractual term of the contracts is three and half years. The fair value of the rights is measured at the grant date using a binomial model taking into account the terms and conditions under which the instruments were granted.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

12. Personnel expenses (continued)

The following table illustrates the number and weighted average fair value of shares granted (hereinafter “WAFV”) and movements in rights to receive shares under the LTIP:

	Number	WAFV
Outstanding as at 1 January 2020	-	-
Granted	2 321 925	103,91
Outstanding as at 31 December 2020	2 321 925	103,91

The following table illustrates the number and weighted average exercise prices (WAEP), and movements in rights to purchase equity instruments:

	Number	WAEP
Outstanding as at 1 January 2019	2 600 000	120,39
Outstanding as at 31 December 2019	2 600 000	120,39
Outstanding as at 1 January 2020	2 600 000	120,39
Exercised	(1 300 000)	120,39
Forfeited	(1 300 000)	120,39
Outstanding as at 31 December 2020	-	-

New equity rights were not granted under previous program during the year ended 31 December 2020.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2019: 0,48 years. Exercise prices for rights outstanding as at 31 December 2019 were RUB 120,39.

The weighted average remaining contractual life of the LTIP is 3,50 years.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

13. Administrative and other operating expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Amortisation of intangible assets (Note 20)	731 574	617 131
Maintenance of property and equipment and intangible assets	470 956	409 377
Depreciation of property and equipment and right-of-use assets (Note 20)	155 642	187 934
Taxes (other than income tax)	129 528	125 778
Communication and telecommunication	74 752	60 235
Professional services	68 161	64 582
Write-off of materials and low value equipment	28 455	8 024
Insurance	22 442	20 624
Security	8 512	7 548
Advertising	8 247	15 302
Charity	3 800	3 435
Corporate events	2 256	24 867
Stationery	1 281	1 888
Business trip expenses	1 149	14 580
Loss on disposal of property, equipment and intangible assets	523	494
Charge of allowances for expected credit losses (Note 14)	188	3 233
Other	7 220	6 414
Total administrative and other operating expenses	1 714 686	1 571 446

Professional services comprise consulting, audit and legal services.

14. Movement in allowance for expected credit losses

The information on the movement in the allowance for expected credit losses of NSD for the year ended 31 December 2020 and 31 December 2019, is provided below.

	Cash and cash equivalents	Due from banks	Financial assets at fair value through other comprehen- sive income	Other financial assets	Total
<i>Note</i>	<i>16</i>	<i>18</i>	<i>19</i>	<i>21</i>	
31 December 2018	47	-	5 071	15 131	20 249
Net (reversal)/charge for the period	(18)	1	1 686	1 564	3 233
Write-off	-	-	-	(4 892)	(4 892)
31 December 2019	29	1	6 757	11 803	18 590
Net (reversal)/charge for the period	(25)	(1)	(5 606)	5 820	188
Write-off	-	-	-	(1 883)	(1 883)
31 December 2020	4	-	1 151	15 740	16 895

Total net charge of the allowance for expected credit losses of NSD for the year ended 31 December 2020 and 31 December 2019 is included in administrative and other operating expenses within statement of profit or loss (Note 13).

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

14. Movement in allowance for expected credit losses (continued)

As at 31 December 2020 and 31 December 2019, the allowance for expected credit losses of financial assets at fair value through other comprehensive income is included in investments revaluation reserve. The movement of the allowance is reflected within statement of comprehensive income.

The allowance for expected credit losses of NSD consists of the loss allowance measured at an amount equal to 12-month expected credit losses for Stage 1 assets, and the loss allowance measured at an amount equal to lifetime expected credit losses for Stage 2 and Stage 3 assets. The composition of NSD's financial assets and correspondent allowances for expected credit losses by stages as at 31 December 2020, is provided below:

	Cash and cash equivalents	Due from banks	Financial assets at fair value through other comprehen- sive income	Other financial assets	Total
Note	16	18	19	21	
31 December 2020					
Stage 1 assets	322 372 312	9 191 786	12 898 367	982 993	345 445 458
Stage 2 assets	-	-	-	807	807
Stage 3 assets	-	-	-	5 681	5 681
Total financial assets	322 372 312	9 191 786	12 898 367	989 481	345 451 946
Allowance for Stage 1 assets	(4)	-	(1 151)	(10 050)	(11 205)
Allowance for Stage 2 assets	-	-	-	(9)	(9)
Allowance for Stage 3 assets	-	-	-	(5 681)	(5 681)
Total allowance for expected credit losses	(4)	-	(1 151)	(15 740)	(16 895)

The composition of NSD's financial assets and correspondent allowances for expected credit losses by stages as at 31 December 2019, is provided below.

	Cash and cash equivalents	Due from banks	Financial assets at fair value through other comprehen- sive income	Other financial assets	Total
Note	16	18	19	21	
31 December 2019					
Stage 1 assets	150 925 556	7 693 669	20 027 604	619 312	179 266 141
Stage 2 assets	-	-	-	613	613
Stage 3 assets	-	-	-	5 810	5 810
Total financial assets	150 925 556	7 693 669	20 027 604	625 735	179 272 564
Allowance for Stage 1 assets	(29)	(1)	(6 757)	(5 986)	(12 773)
Allowance for Stage 2 assets	-	-	-	(7)	(7)
Allowance for Stage 3 assets	-	-	-	(5 810)	(5 810)
Total allowance for expected credit losses	(29)	(1)	(6 757)	(11 803)	(18 590)

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

14. Movement in allowance for expected credit losses (continued)

The tables below analyze information about the significant changes in the gross carrying amount of other financial assets during the period that contributed to changes in the loss allowance as well as the movement of the loss allowance during the 2020:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 1 January 2020	619 312	613	5 810	625 735
New financial assets originated or purchased less financial assets that have been derecognised due to being redeemed or sold	365 629	-	-	365 629
Transfer to Stage 2	(1 948)	1 948	-	-
Transfer to Stage 3	-	(1 754)	1 754	-
Write off	-	-	(1 883)	(1 883)
Gross carrying amount at 31 December 2020	982 993	807	5 681	989 481
Loss allowance at 31 December 2020	(10 050)	(9)	(5 681)	(15 740)

	Stage 1	Stage 2	Stage 3	Total
Loss allowance at 1 January 2020	5 986	7	5 810	11 803
Net increase in credit risk	4 086	-	1 734	5 820
Transfer to Stage 2	(22)	22	-	-
Transfer to Stage 3	-	(20)	20	-
Write-offs	-	-	(1 883)	(1 883)
Loss allowance at 31 December 2020	10 050	9	5 681	15 740

The tables below analyze information about the significant changes in the gross carrying amount of other financial assets during the period that contributed to changes in the loss allowance as well as the movement of the loss allowance during the 2019:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 1 January 2019	537 372	532	8 141	546 045
New financial assets originated or purchased less financial assets that have been derecognised due to being redeemed or sold	84 582	-	-	84 582
Transfer to Stage 2	(2 642)	2 642	-	-
Transfer to Stage 3	-	(2 561)	2 561	-
Write-offs	-	-	(4 892)	(4 892)
Gross carrying amount at 31 December 2019	619 312	613	5 810	625 735
Loss allowance at 31 December 2019	(5 986)	(7)	(5 810)	(11 803)

	Stage 1	Stage 2	Stage 3	Total
Loss allowance at 1 January 2019	6 982	8	8 141	15 131
Net (decrease)/increase in credit risk	(966)	(2)	2 532	1 564
Transfer to Stage 2	(30)	30	-	-
Transfer to Stage 3	-	(29)	29	-
Write-offs	-	-	(4 892)	(4 892)
Loss allowance at 31 December 2019	5 986	7	5 810	11 803

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

15. Income tax

NSD calculates current income tax based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation, which may differ from IFRS.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for tax purposes. Temporary differences relate mostly to different methods of income and expense recognition, as well as to recorded values of certain assets.

The tax rate used for the reconciliations between tax expense and accounting profit is the corporate tax rate of 20% payable by corporate entities in the Russian Federation on taxable profits under the tax law in that jurisdiction.

The analysis of the temporary differences as at 31 December 2020 and 2019 is presented below:

	31 December 2020	31 December 2019
Tax effect from deductible temporary differences		
Cash and cash equivalents	1	6
Balances of market participants	5 229	5 229
Financial assets at fair value through other comprehensive income	-	1 974
Property, equipment and right-of-use assets	18 913	12 285
Intangible assets	19 143	-
Other assets	11 778	4 282
Other liabilities	121 683	97 386
Total tax effect from deductible temporary differences	176 747	121 162
Tax effect from taxable temporary differences		
Financial assets at fair value through profit or loss	(106 044)	(4 582)
Intangible assets	-	(3 988)
Other assets	(7 096)	-
Total tax effect from taxable temporary differences	(113 140)	(8 570)
Deferred tax assets	63 607	112 592

Reconciliation of income tax expense and accounting for the year ended 31 December 2020 and 31 December 2019 is presented below:

	Year ended 31 December 2020	Year ended 31 December 2019
Profit before income tax	5 299 487	4 451 453
Statutory tax rate	20%	20%
Tax at the statutory tax rate (20%)	1 059 897	890 291
Tax effect of income taxed at rates different from the statutory tax rate	(46 092)	(63 485)
Tax effect of non-taxable expenses	35 665	40 342
Adjustments in respect of current income tax of previous years	276	1 574
Income tax expense	1 049 746	868 722
Current income tax expense	1 023 783	899 612
Adjustments in respect of current income tax of previous years	276	1 574
Deferred taxation movement due to origination and reversal of temporary differences	25 687	(32 464)
Income tax expense	1 049 746	868 722

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

15. Income tax (continued)

Deferred tax assets are as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Beginning of the period	112 592	103 883
Change in deferred income tax balances recognised in profit or loss	(25 687)	32 464
Change in deferred income tax balances recognised in other comprehensive income	(23 298)	(23 755)
End of the period	63 607	112 592

16. Cash and cash equivalents

The information on cash and cash equivalents as at 31 December 2020 and 31 December 2019 is provided below:

	31 December 2020	31 December 2019
Balances with the CBR	475 014	2 163 126
Balances with banks:		
– Russian Federation	304 882 264	135 825 516
– Organization for Economic Cooperation and Development countries	16 924 317	12 836 261
– other countries	89 050	98 678
Cash on hand	1 667	1 975
Total cash and cash equivalents	322 372 312	150 925 556
Less allowance for expected credit losses (Note 14)	(4)	(29)
Total cash and cash equivalents	322 372 308	150 925 527

As at 31 December 2020, NSD has balances with four counterparties (31 December 2019: five counterparties) each of which is greater than 10% of equity. The total aggregate amount of these balances is RUB 320 460 095 thousand or 99% of total cash and cash equivalents as at 31 December 2020 (31 December 2019: RUB 148 478 635 thousand or 98% of total cash and cash equivalents).

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

17. Financial assets at fair value through profit or loss

	31 December 2020	31 December 2019
Derivative financial instruments at fair value through profit or loss	524 625	19 615
Shares issued by foreign companies	8 278	5 980
Total financial assets at fair value through profit or loss	532 903	25 595

The table below shows the analysis of derivatives at fair value through profit or loss as at 31 December 2020:

	Contractual amount		Assets – positive fair value	Liabilities – negative fair value
	Receivables	Payables		
Currency swaps	55 931 400	(55 406 775)	524 625	-

The table below shows the analysis of derivatives at fair value through profit or loss as at 31 December 2019:

	Contractual amount		Assets – positive fair value	Liabilities – negative fair value
	Receivables	Payables		
Currency swaps	10 323 628	(10 304 013)	19 615	-

18. Due from banks

	31 December 2020	31 December 2019
Account of clearing collective collateral (Guarantee Fund)	10 000	10 000
Other	9 181 786	7 683 669
Total due from banks	9 191 786	7 693 669
Less allowance for expected credit losses (Note 14)	-	(1)
Total due from banks	9 191 786	7 693 668

Other funds as at 31 December 2020 include blocked correspondent account of NSD with Euroclear Bank S.A./N.V., Brussels, which relate to foreign securities (coupon and principal repayments) owned by a US/EU sanctioned client's banks, in the amount of RUB 9 191 786 thousand (31 December 2019: 7 683 669 thousand). Balances of market participants as at 31 December 2020 include account balances of the said clients in the amount of RUB 9 191 786 thousand (31 December 2019: RUB 7 683 669 thousand) (Note 22).

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

19. Financial assets at fair value through other comprehensive income

	31 December 2020	31 December 2019
Bonds issued by the Russian Federation	12 898 367	20 027 604
Total financial assets at fair value through other comprehensive income	12 898 367	20 027 604

As at 31 December 2020 financial assets at fair value through other comprehensive income of RUB 9 845 171 thousand (31 December 2019: RUB 9 347 220 thousand) were included in the “Blocked by the CBR” section of NSD’s securities account and could be used as a collateral for NSD’s borrowings within the limit set by the CBR (see CBR Regulation No. 4801–U, “On the methods and criteria of collateralized refinancing of credit organizations” dated 22 May 2018).

20. Property and equipment, right-of-use assets and intangible assets

	Land	Buildings and other real estate	Furniture and equipment	Right-of-use assets	Intangible assets	Intangible assets in development	Total
Cost							
31 December 2018	94 139	2 684 210	965 726	-	3 332 479	69 379	7 145 933
1 January 2019 (with IFRS 16 effect)	94 139	2 684 210	956 726	56 562	3 332 479	69 379	7 202 495
Additions	-	-	97 641	-	531 615	151 297	780 553
Reclassification	-	-	-	-	59 249	(59 249)	-
Modification and remeasurement	-	-	-	289	-	-	-
Disposals	-	-	(32 222)	-	(19 062)	(305)	(51 589)
31 December 2019	94 139	2 684 210	1 031 145	56 851	3 904 281	161 122	7 931 748
Additions	-	-	25 146	-	593 242	166 654	785 042
Reclassification	-	-	-	-	106 584	(106 584)	-
Modification and remeasurement	-	-	-	1 600	-	-	1 600
Disposals	-	-	-	-	-	(523)	(523)
31 December 2020	94 139	2 684 210	1 056 291	58 451	4 604 107	220 669	8 717 867
Accumulated depreciation							
31 December 2018	-	398 306	751 045	-	1 134 379	-	2 283 730
1 January 2019 (with IFRS 16 effect)	-	398 306	751 045	-	1 134 379	-	2 283 730
Charge for the period	-	53 684	128 571	5 679	617 131	-	805 065
Written off on disposal	-	-	(32 033)	-	(19 062)	-	(51 095)
31 December 2019	-	451 990	847 583	5 679	1 732 448	-	3 037 700
Charge for the period	-	53 831	95 991	5 820	731 574	-	887 216
31 December 2020	-	505 821	943 574	11 499	2 464 022	-	3 924 916
Net book value							
31 December 2019	94 139	2 232 220	183 562	51 172	2 171 833	161 122	4 894 048
31 December 2020	94 139	2 178 389	112 717	46 953	2 140 085	220 669	4 792 951

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

20. Property and equipment, right-of-use assets and intangible assets (continued)

Intangible assets include computer software, trademarks and licenses.

As at 31 December 2020, NSD's historical cost of fully depreciated property and equipment amounts to RUB 729 393 thousand (31 December 2019: RUB 674 463 thousand).

As at 31 December 2020, NSD's historical cost of fully depreciated intangible assets amounts to RUB 489 315 thousand (31 December 2019: RUB 225 466 thousand).

As at 31 December 2020 the book value of right-of-use assets is represented by leased premises in the amount of RUB 45 969 thousand and parking spaces in the amount of RUB 983 thousand (31 December 2019: RUB 50 148 thousand and RUB 1 024 thousand accordingly).

The amounts recognised in profit or loss related to NSD's lease contracts are as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Amounts recognised in profit or loss		
Depreciations expense on right-of-use assets	5 820	5 679
Interest expense on lease liabilities	4 433	4 652
	10 253	10 331

21. Other assets

	31 December 2020	31 December 2019
Other financial assets:		
Services and other accounts receivable	989 478	625 705
Other assets	3	30
Less allowance for expected credit losses (Note 14)	(15 740)	(11 803)
Total other financial assets	973 741	613 932
Other non-financial assets:		
Prepaid expenses	208 856	59 916
Non-current assets prepaid	97 841	51 826
Tax receivable other than income tax	4 358	13 606
Total other assets	1 284 796	739 280

22. Balances of market participants

	31 December 2020	31 December 2019
Balances of credit institutions	250 488 100	136 924 155
Balances of financial companies	49 595 954	22 358 367
Balances of CBR	19 497 015	200
Total balances of market participants	319 581 069	159 282 722

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

22. Balances of market participants (continued)

As at 31 December 2020 NSD's balances of market participants in the amount of RUB 262 416 153 thousand (82%), (31 December 2019 NSD's balances of market participants in the amount of RUB 112 546 163 thousand (71%)) related to 10 market participants which is a significant concentration.

Balances of market participants as at 31 December 2020 include account balances of the said sanctioned client's banks totaling RUB 9 181 786 thousand (31 December 2019: RUB 7 683 669 thousand) (Note 18).

23. Distributions payable to holders of securities

Distributions payable to holders of securities comprise dividends and coupon amounts received by NSD from the issuers of securities on behalf of customers of NSD, for which NSD provides depository services.

The normal settlement period for distribution of dividends and coupon amounts to its customers is three days. Amounts of dividends and coupons payable to clients are stated at their contractual values.

24. Other liabilities

	31 December 2020	31 December 2019
Other financial liabilities:		
Payables for services	204 169	148 490
Payroll settlements	55 776	47 525
Lease liabilities	50 502	53 074
Other	324	1 623
Total other financial liabilities	310 831	250 712
Other non-financial liabilities:		
Personnel remuneration provision	485 261	397 382
Tax agent liabilities regarding distributions payable to holders of securities	422 310	170 799
Advances received for depository services	261 397	247 443
Taxes payable other than income tax	118 232	101 045
Total other liabilities	1 598 031	1 167 381
	31 December 2020	31 December 2019
Maturity analysis of lease liabilities		
Less than one year	8 692	8 432
One to two years	8 692	8 432
Two to three years	8 692	8 432
Three to four years	8 692	8 432
Four to five years	8 692	8 432
More than five years	26 076	33 727
Less unearned interest	(19 034)	(22 813)
Lease liabilities	50 502	53 074

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

24. Other liabilities (continued)

The table below details changes in the NSD's lease liabilities arising from financial activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

1 January 2019	56 562
Financing cash flows	(8 429)
Modification and remeasurement	289
Other changes	4 652
31 December 2019	53 074
Financing cash flows	(8 605)
Modification and remeasurement	1 600
Other changes	4 433
31 December 2020	50 502

25. Share capital and share premium

As at 31 December 2020 and 31 December 2019 NSD's share capital comprised of 1 180 675 ordinary registered shares with par value of RUB 1 000 each.

Share capital is reported in accordance with IAS 29 Financial Reporting in Hyperinflationary Economies. As at 31 December 2020 and 31 December 2019 the share capital including inflation adjustment amounted to RUB 1 193 982 thousand.

Share premium represents an excess of the sale price of NSD's share over their par value. Share premium was formed as a result of a merger of NDC and MICEX SH (Note 1) and sale of shares to the former shareholders of NDC.

26. Retained earnings

During the year ended 31 December 2020, NSD paid dividends on ordinary shares for 2019, which amounted to RUB 1 850 000 thousand (during year ended 31 December 2019: paid dividends on ordinary shares for 2019 in the amount of RUB 2 757 282 thousand). Dividends for 2019 declared during year ended 31 December 2020 are RUB 1 566,90 per ordinary share (during year ended 31 December 2019: RUB 2 335,34 per ordinary share).

NSD's distributable reserves are limited to the amount of reserves reported in the statutory financial statements of NSD. Non-distributable reserves comprise a reserve fund, which is created according to the statutory regulations to cover risks, including future losses and other unforeseen risks and contingencies. The reserve fund was formed in accordance with Articles of association of NSD providing for the establishment of a reserve for these purposes of not less than 15% of the share capital NSD according to RAS. As at 31 December 2020 and 31 December 2019 reserve fund amounted to RUB 177 101 thousand.

National Settlement Depository

Notes to the Financial Statements
for the Year Ended 31 December 2020 (continued)
(in thousands of Russian Rubles)

27. Commitments and contingencies

Legal proceedings – From time to time and in the normal course of business claims against NSD may be received from customers and counterparties. Management believes that no material impact on the financial and business activities and significant losses will be incurred as a result of such claims and accordingly no provisions have been made in these Financial Statements.

Fiduciary activities – NSD provides depository services to its customers. As at 31 December 2020 and 31 December 2019, NSD had customer securities totalling 93 607 billion items and 101 739 billion items, respectively, in its nominal holder accounts. NSD accepts the operational risk on depository activities.

Taxation – A substantial part of the activities of NSD carried out in the Russian Federation. Some provisions of the Russian tax, currency and customs legislation as at present in force are defined not clearly enough, which frequently leads to different interpretations (that can be applied to the past legal matters), selective and inconsistent application and also in some cases to changes that are hard to predict.

NSD's management interpretation of such legislation as applied to its operations and activity may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of NSD that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As at 31 December 2020 management believes that its interpretation of the relevant legislation is appropriate and that NSD's tax, currency and customs positions will be sustained.

Insurance – NSD has insurance policies from Ingosstrakh Insurance Company. The insurance packages comprise fraud, errors and omissions coverage and a comprehensive liability and crime policy. The comprehensive liability and crime policy have been developed especially for insuring professional risks of clearing houses and central securities depositories. The total coverage level for the packages of insurance at 31 December 2020 is USD 65 million or RUB 4 801 921 thousand at the rate of CBR on the reporting date (31 December 2019: USD 65 million or RUB 4 023 871 thousand at the rate of CBR on the reporting date).

28. Transactions with related parties

Transactions with key management. Key management personnel comprise members of the Supervisory Board, Chairman of the Executive Board and members of the Executive Board. The total remuneration paid to key management personnel includes short-term benefits (salary, bonuses, payroll related taxes, insurance, health care, etc.), long-term benefits and payments based on the shares of the parent company.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

28. Transactions with related parties (continued)

Included in the statement of financial position are the following amounts that arose on transactions with key management personnel:

	31 December 2020	31 December 2019
Other liabilities	160 216	130 510
Payments based on the shares of the parent company	-	39 303

Included in the statement of profit or loss are the following amounts that arose due to transactions with key management personnel:

	Year ended 31 December 2020	Year ended 31 December 2019
Short-term employee benefits except payments based on the shares of the parent company	221 651	198 675
Long-term employee benefits	9 449	11 445
Payments based on the shares of the parent company	4 086	14 797
Total remuneration of key management personnel	235 186	224 917

Transactions with government-related parties. NSD is a subsidiary of the Moscow Exchange holding 99,997% shares as at 31 December 2020 and 31 December 2019.

As at 31 December 2020 and 31 December 2019 the Russian Federation exercises significant influence over NSD.

Transactions with state-related entities constitute a significant part of NSD's operations. Such transactions include depository, settlement and repository services, attracting deposits, placement of funds with government-related banks, as well as bonds issued by the Russian Federation or state-related entity.

According to p.26 (b) of IAS 24 NSD discloses the following significant outstanding balances with government-related entities:

	31 December 2020	31 December 2019
Cash and cash equivalents	513 550	2 212 802
Financial assets at fair value through other comprehensive income	12 898 367	20 027 604
Other assets	518 569	272 032
Balances of market participants	73 697 880	53 682 629
Distributions payable to holders of securities	12 373 452	9 354 811
Other liabilities	136 474	102 275

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

28. Transactions with related parties (continued)

Financial results on operations with government-related entities:

	Year ended 31 December 2020	Year ended 31 December 2019
Fee and commission income	3 125 343	2 605 431
Commission expenses	(17 579)	(25 180)
Interest and other finance income	1 098 517	1 186 090
Net gain on financial assets at fair value through other comprehensive income	675	61 427
Net (loss)/gain on financial assets at fair value through profit or loss	(7 836)	91 913
Other income	861	311
Administrative and other operating expenses	(20 337)	(23 307)

Transactions with Parent company and Moscow Exchange Group. Parent company - Moscow Exchange (controlling shareholder) - provides technical and informational supporting services, as well as representation services to NSD.

The terms and conditions of transactions with related parties are similar to those on which NSD operates with other counterparties.

Included in statement of financial position are the following amounts in respect of significant transactions with related parties:

	31 December 2020		31 December 2019	
	Parent	Other	Parent	Other
Cash and cash equivalents	-	304 742 629	-	135 707 588
Financial assets at fair value through profit or loss	-	524 625	-	19 615
Due from banks	-	10 000	-	10 000
Other assets	2 120	50 091	2 412	51 322
Balances of market participants	109 869	168 179 184	433 353	74 899 867
Other liabilities	70 457	68 311	72 560	9 227

The fair value of the contractual amount of contracts for transactions in derivative financial instruments at fair value through profit or loss as at 31 December 2020 and 31 December 2019 with other related parties is presented in Note 17.

Included in the statement of profit or loss are the following amounts in respect of significant transactions with related parties:

	Year ended 31 December 2020		Year ended 31 December 2019	
	Parent	Other	Parent	Other
Fee and commission income	9 217	374 786	9 740	318 217
Commission expenses	(8 879)	(1 813)	(8 945)	(1 912)
Interest and other finance income	-	137 293	-	-
Interest expenses	(4 433)	(227 285)	(4 652)	(101 583)
Net gain from operations with derivatives at fair value through profit or loss	-	1 641 750	-	1 099 631
Other income	10 930	17 896	11 840	14 002
Administrative and other operating expenses	(76 335)	(17)	(69 735)	(12)

Net gain from operations with derivatives at fair value through profit or loss with Other not included loss from exchange market operations with Central Counterparty for the year ended 31 December 2020 in the amount of RUB 52 959 thousand (31 December 2019: income from exchange market operations with Central Counterparty in the amount of RUB 175 164 thousand).

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

29. Capital management

NSD's capital management policy is aimed to ensure successful and stable operations and to maximize shareholder's value.

The capital structure of NSD consists of share capital, share premium and retained earnings.

NSD's Executive Board reviews the capital structure annually. As a part of this review, the Executive Board considers changes in the cost of capital and the risks associated with each class of capital. Based on recommendations of the Executive Board NSD balances its overall capital structure through the payment of dividends or new share issues.

The CBR established special requirements for credit institutions and banking groups in respect of the minimum amount of capital adequacy calculated based on RAS financial statements. The CBR requires non-banking credit institutions to maintain a ratio of capital to risk-weighted assets ("capital adequacy ratio") at a level exceeding the minimum ratio of 12%.

Being a professional participant of the securities market, NSD must comply with capital adequacy requirements in respect of minimal amounts of equity.

Capital adequacy ratios for NSD were as follows:

Equity		Mandatory equity		Capital adequacy ratio	
31 December 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
12 337 869	9 767 801	4 000 000	4 000 000	27,9	31,8

NSD complied with all external capital adequacy requirements.

30. Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in conducting operations on a voluntary basis between market participants at the measurement date.

NSD measures fair values for financial assets recorded on the statement of financial position at fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities.
- Level 2: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).
- Level 3: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

The foreign currency forward contracts are measured based on observable spot exchange rates and the yield curves of the respective currencies.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

30. Fair value measurements (continued)

The fair value of unquoted equity instruments has been determined based on market approach using price/net assets ratio for similar companies.

The table below analyses financial assets and liabilities measured at fair value as at 31 December 2020, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	31 December 2020			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss	-	524 625	8 278	532 903
Financial assets at fair value through other comprehensive income	12 898 367	-	-	12 898 367

The table below analyses financial assets and liabilities measured at fair value as at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	31 December 2019			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss	-	19 615	5 980	25 595
Financial assets at fair value through other comprehensive income	20 027 604	-	-	20 027 604

Management of NSD considers that the fair value of cash and cash equivalents, due from banks, other financial assets, balances of market participants and other financial liabilities as at 31 December 2020 and 31 December 2019 refer to level 2 hierarchy of fair value.

The following table shows a reconciliation for year ended 31 December 2020 and 31 December 2019 for fair value measurements in Level 3 of the fair value hierarchy:

	Financial assets at fair value through profit or loss
Balance as at 1 January 2019	13 111
Level 3 securities sold	(13 770)
Gains reported in profit or loss	7 484
Foreign exchange	(845)
Balance as at 31 December 2019	5 980
Gains reported in profit or loss	393
Foreign exchange	1 905
Balance as at 31 December 2020	8 278

Management of NSD considers that the fair value of financial assets and liabilities which are not carried at fair value in the statement of financial position is approximately equal to their carrying value due to their short-term nature.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

31. Risk management policies

Risk management is an integral part of NSD's activities. NSD distinguishes the following significant risks: credit, operational, market, liquidity. Risk management core objectives include identification of sources of risks, measurement of risk levels, development of risk management policies and implementation of risk controls, including setting limits and further compliance with them.

A description of NSD's risk management policies in relation to each significant risk is as follows.

Credit risk. NSD uses credit risk management approaches under requirements of the Russian regulators, based on the best international practices and standards. NSD's assets are exposed to credit risk, which is defined as the risk of losses resulting from a default or improper performance of their obligations to NSD by its counterparties.

The goal of credit risk management is to timely define and efficiently evaluate the level of risk necessary to ensure sustainable growth determined by NSD's development strategy.

The objectives of NSD in credit risk management:

- Implement a systemic and enhanced approach to optimize the structure of the assets in order to limit credit risk level;
- Enhance the competitive advantages of NSD through implementation of more precise risk measures;
- Maintain stability during the introduction of new complex products and services.

NSD controls credit risk by setting limits on a counterparty and groups of related counterparties. Credit risk limits are set on the basis of a comprehensive and in-depth evaluation of the counterparty's financial conditions, analysis of the macroeconomic environment of counterparties' activities, the level of information transparency, business reputation and other financial and non-financial factors. NSD has developed and constantly improves an internal ratings system, providing a prudent assessment of its counterparties and the level of accepted credit risk.

Credit risk limits are approved by authorized bodies. Credit risk limits are monitored and reviewed on a regular basis. Also, NSD constantly monitors the concentration of credit risk in compliance with applicable prudential requirements.

To reduce credit risk NSD applies specific requirements to the financial conditions of its counterparties.

As explained in Note 3, NSD monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk NSD will measure the loss allowance based on lifetime rather than 12-month ECL.

NSD uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. Starting 1 January 2020 NSD uses CDS curves quotes in its measurement of ECL. NSD has identified and documented the key driver of credit risk and credit losses – CDS of Russia.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

31. Risk management policies (continued)

The table below outlines the total ECL for portfolio as at 31 December 2020 if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if the key assumption used change by plus or minus 10 % (parallel shift of CDS curve).

	As expected	ECL Cumulative
CDS of Russia	-10%	16 780
	-	16 895
	+10%	17 011

As at 31 December 2020 and 2019, NSD has no modified financial assets as a result of NSD's forbearance activities and no amounts outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity.

Maximum credit risk exposure. NSD's maximum exposure to credit risk equals to the carrying value of financial assets exposed to credit risk.

As at 31 December 2020 included into other assets are overdue receivables of RUB 5 120 thousand (31 December 2019: RUB 6 422 thousand).

Financial assets are classified according to the current credit ratings issued by international rating agencies (Fitch Ratings, Standard & Poor's and Moody's Investor Services). The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB-. Financial assets, which have ratings lower than BBB-, are classed as speculative grade.

As at 31 December 2020 and 2019, balances with the CBR are classified at the sovereign credit rating level of the Russian Federation.

Tables below do not include equity instruments.

The following table details the credit ratings of financial assets held by NSD as at 31 December 2020:

	AA	A	BBB	less BBB-	Not rated	31 December 2020 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	10 850 075	6 073 965	305 395 212	21 872	29 517	322 370 641
Financial assets at fair value through profit or loss	-	-	524 625	-	-	524 625
Due from banks	9 181 786	-	10 000	-	-	9 191 786
Financial assets at fair value through other comprehensive income	-	-	12 898 367	-	-	12 898 367
Other financial assets	99 755	47	483 147	122 971	267 821	973 741

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

31. Risk management policies (continued)

As at 31 December 2019:

	AA	A	BBB	less BBB–	Not rated	31 December 2019 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	10 740 980	1 571 734	138 559 300	29 606	21 932	150 923 552
Financial assets at fair value through profit or loss	-	-	19 615	-	-	19 615
Due from banks	7 683 668	-	10 000	-	-	7 693 668
Financial assets at fair value through other comprehensive income	-	-	20 027 604	-	-	20 027 604
Other financial assets	32 515	3	229 934	113 591	237 889	613 932

Geographical concentration. The geographical concentration of NSD assets and liabilities as at 31 December 2020:

	Russian Federation	OECD countries	Non-OECD countries	31 December 2020 Total
FINANCIAL ASSETS:				
Cash and cash equivalents	305 358 943	16 924 315	89 050	322 372 308
Financial assets at fair value through profit or loss	524 625	8 278	-	532 903
Due from banks	10 000	9 181 786	-	9 191 786
Financial assets at fair value through other comprehensive income	12 898 367	-	-	12 898 367
Other financial assets	870 243	102 020	1 478	973 741
Total financial assets	319 662 178	26 216 399	90 528	345 969 105
FINANCIAL LIABILITIES:				
Balances of market participants	312 115 975	2 268 068	5 197 026	319 581 069
Distributions payable to holders of securities	14 487 474	672 207	529 525	15 689 206
Other financial liabilities	240 955	69 611	265	310 831
Total financial liabilities	326 844 404	3 009 886	5 726 816	335 581 106

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

31. Risk management policies (continued)

As at 31 December 2019:

	Russian Federation	OECD countries	Non-OECD countries	31 December 2019 Total
FINANCIAL ASSETS:				
Cash and cash equivalents	137 990 591	12 836 258	98 678	150 925 527
Financial assets at fair value through profit or loss	19 615	5 980	-	25 595
Due from banks	10 000	7 683 668	-	7 693 668
Financial assets at fair value through other comprehensive income	20 027 604	-	-	20 027 604
Other financial assets	575 577	36 365	1 990	613 932
Total financial assets	158 623 387	20 562 271	100 668	179 286 326
FINANCIAL LIABILITIES:				
Balances of market participants	158 136 448	708 382	437 892	159 282 722
Distributions payable to holders of securities	11 184 005	380 528	149 612	11 714 145
Other financial liabilities	180 758	69 842	112	250 712
Total financial liabilities	169 501 211	1 158 752	587 616	171 247 579

As at 31 December 2020, the balances with OECD counterparties include the following balances with OECD subsidiaries of Russian companies:

- Other assets in the amount of RUB 1 047 thousand (31 December 2019: RUB 742 thousand);
- Balances of market participants in the amount of RUB 2 218 211 thousand (31 December 2019: RUB 666 858 thousand);
- Distributions payable to holders of securities in the amount of RUB 93 710 thousand (31 December 2019: RUB 2 866 thousand).

Liquidity risk. Liquidity risk is the risk of facing the situation where available funds are insufficient to meet current financial liabilities. The main purpose of liquidity management is to ensure NSD's ability to perform its obligations not only under normal market conditions but also in cases of unforeseen emergencies without suffering unacceptable losses or risk of damaging its business reputation.

NSD's liquidity management procedures cover various forms of liquidity risk:

- Operating liquidity risk arising from the inability to timely meet its current obligations due to the existing structure of current cash credits and debits (operating analysis and control of liquidity);
- Risk of mismatch between the amounts and dates of repayment of claims and obligations – analysis and assessment of prospective liquidity (GAP analysis);
- Risk of unforeseen claims on liquidity, i.e. the consequences of the risk that unforeseen future events may claim more resources than allocated for this purpose (stress testing).

Liquidity risk management plays an important role in the whole risk management system and includes such procedures as: forecasting/monitoring payment flow and liquidity ratios, planning measures to recover the required liquidity level considering unfavorable and crisis situations, ensuring an optimal structure of assets in accordance with the resource base, taking into account the maturities of fund sources and their volumes when allocating assets to financial instruments.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

31. Risk management policies (continued)

According to Russian laws and internal regulations, NSD is entitled to make investments in accordance with the limits stipulated by mandatory regulations.

In this respect NSD places temporarily available funds on accounts and deposits with banks, debt securities issued by the Russian Government, deposits with the CBR maturing within 30 calendar days and bonds issued by the CBR. Amounts of deposits placed with the CBR and bonds issued by the CBR are determined on a daily basis within the limits established by decision of the Supervisory Board of NSD. Thus, NSD controls liquidity risk by placement of temporarily available funds in risk-free assets or those exposed to minimal risk.

The liquidity position is controlled on a daily basis in accordance with the internal regulations.

Management expects that the cash flows from certain financial assets will be different from their contractual terms either because NSD has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows.

The presentation below is based upon the information provided internally to key management personnel of NSD.

	Up to 1 month	1 month to 3 months	3 months to 1 year	More than 1 year	Maturity undefined	31 December 2020 Total
FINANCIAL ASSETS						
Cash and cash equivalents	322 372 308	-	-	-	-	322 372 308
Financial assets at fair value through profit or loss	524 625	-	-	-	8 278	532 903
Due from banks	-	-	-	10 000	9 181 786	9 191 786
Financial assets at fair value through other comprehensive income	12 898 367	-	-	-	-	12 898 367
Other financial assets	973 741	-	-	-	-	973 741
Total financial assets	336 769 041	-	-	10 000	9 190 064	345 969 105
FINANCIAL LIABILITIES						
Balances of market participants	310 399 283	-	-	-	9 181 786	319 581 069
Distributions payable to holders of securities	15 689 206	-	-	-	-	15 689 206
Other financial liabilities	200 872	766	63 291	45 902	-	310 831
Total financial liabilities	326 289 361	766	63 291	45 902	9 181 786	335 581 106
Liquidity gap	10 479 680	(766)	(63 291)	(35 902)	8 278	
Cumulative liquidity gap	10 479 680	10 478 914	10 415 623	10 379 721	10 387 999	

As at 31 December 2020 NSD entered into a series of currency swaps with settlements with a maturity of up to 1 month. The analysis of requirements and obligations under such transactions is presented in Note 17.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

31. Risk management policies (continued)

	Up to 1 month	1 month to 3 months	3 months to 1 year	More than 1 year	Maturity undefined	31 December 2019 Total
FINANCIAL ASSETS						
Cash and cash equivalents	150 925 527	-	-	-	-	150 925 527
Financial assets at fair value through profit or loss	19 615	-	-	-	5 980	25 595
Due from banks	-	-	-	10 000	7 683 668	7 693 668
Financial assets at fair value through other comprehensive income	20 027 604	-	-	-	-	20 027 604
Other financial assets	582 845	31 087	-	-	-	613 932
Total financial assets	171 555 591	31 087	-	10 000	7 689 648	179 286 326
FINANCIAL LIABILITIES						
Balances of market participants	151 599 053	-	-	-	7 683 669	159 282 722
Distributions payable to holders of securities	11 714 145	-	-	-	-	11 714 145
Other financial liabilities	131 192	15 681	54 811	49 028	-	250 712
Total financial liabilities	163 444 390	15 681	54 811	49 028	7 683 669	171 247 579
Liquidity gap	8 111 201	15 406	(54 811)	(39 028)	5 979	
Cumulative liquidity gap	8 111 201	8 126 607	8 071 796	8 032 768	8 038 747	

As at 31 December 2019 NSD entered into a series of currency swaps with settlements with a maturity of up to 1 month. The analysis of requirements and obligations under such transactions is presented in Note 17.

Undiscounted cash flows on financial liabilities are approximately equal to cash flows presented in the analysis of liquidity risk above.

Market risk. Market risk is the risk of losses due to changes in market variables such as interest rates, foreign exchange rates, and prices of financial instruments.

Interest rate risk. Interest rate risk is the risk of changes in interest income or the financial instruments price due to the interest rate changes.

NSD's result is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows. Interest margin may increase, decrease or lead to losses as a result of unexpected movements.

NSD's management is responsible for asset–liability management.

The Risk Management Department are responsible for interest rate risk management.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

31. Risk management policies (continued)

In order to measure the impact of interest rate risk on the fair value of financial instruments NSD conducts periodic assessments of potential losses, which may be triggered by negative changes in market environment. The Risk Management Department conducts periodic monitoring of the current financial results of NSD, assesses the sensitivity of the impact of interest rate risk on portfolio fair value and income.

The majority of NSD's transactions is represented by fixed income instruments, and hence the contractual maturity dates are also the dates of changes in interest rates.

The impact of changes in fair value of financial assets on the income, losses and equity is conducted based on the interest rates existing as at 31 December 2020 and 31 December 2019, and reasonably possible changes of 150 bps. Corresponding negative and positive results shown in the following table:

	At 31 December 2020		At 31 December 2019	
	Net profit	Equity	Net profit	Equity
150 bp rise	-	(183 007)	-	(169 880)
150 bp fall	-	187 411	-	175 232

Currency risk. Currency risk is the risk of changes in financial instruments value due to the exchange rates fluctuations. The financial position and cash flows of NSD are subject to the influence of such fluctuations. The main source of currency risk are open foreign currency positions. NSD maintain control over the currency risk through monitoring of open foreign currency positions.

As at 31 December 2020, NSD had the following positions in different currencies:

	RUB	USD	EUR	Other currencies	31 December 2020 Total
FINANCIAL ASSETS:					
Cash and cash equivalents	34 146 621	227 391 713	57 333 277	3 500 697	322 372 308
Financial assets at fair value through profit or loss	-	-	8 278	-	8 278
Due from banks	924 049	8 261 476	6 261	-	9 191 786
Financial assets at fair value through other comprehensive income	12 898 367	-	-	-	12 898 367
Other financial assets	911 983	61 388	-	370	973 741
Total financial assets	48 881 020	235 714 577	57 347 816	3 501 067	345 444 480
FINANCIAL LIABILITIES:					
Balances of market participants	79 587 255	179 166 279	57 339 605	3 487 930	319 581 069
Distributions payable to holders of securities	14 586 456	1 101 904	198	648	15 689 206
Other financial liabilities	242 176	5 351	62 739	565	310 831
Total financial liabilities	94 415 887	180 273 534	57 402 542	3 489 143	335 581 106
Derivatives	55 931 400	(55 406 775)	-	-	524 625
Open position	10 396 533	34 268	(54 726)	11 924	

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

31. Risk management policies (continued)

As at 31 December 2019, NSD had the following positions in different currencies:

	RUB	USD	EUR	Other currencies	31 December 2019 Total
FINANCIAL ASSETS:					
Cash and cash equivalents	26 151 057	77 039 170	45 865 208	1 870 092	150 925 527
Financial assets at fair value through profit or loss	-	-	5 980	-	5 980
Due from banks	895 014	6 796 253	2 401	-	7 693 668
Financial assets at fair value through other comprehensive income	20 027 604	-	-	-	20 027 604
Other financial assets	612 985	947	-	-	613 932
Total financial assets	47 686 660	83 836 370	45 873 589	1 870 092	179 266 711
FINANCIAL LIABILITIES:					
Balances of market participants	38 515 501	83 404 028	35 548 642	1 814 551	159 282 722
Distributions payable to holders of securities	11 266 166	400 053	-	47 926	11 714 145
Other financial liabilities	180 715	22 492	47 338	167	250 712
Total financial liabilities	49 962 382	83 826 573	35 595 980	1 862 644	171 247 579
Derivatives	10 323 628	-	(10 304 013)	-	19 615
Open position	8 047 906	9 797	(26 404)	7 448	

In addition to projecting and analyzing its earnings and debt profile by currency, NSD reviews sensitivities to movements in exchange rates, which are appropriate to market conditions. NSD has considered movements in the Euro and the US Dollar rates during 2020 and has concluded that the following movements of 20 % in rates are reasonable levels to measure the currency risk of NSD.

The following is an analysis of the sensitivity of profit or loss and equity to changes in foreign exchange rates of 20% based on positions as at 31 December 2020 and 2019, as well as in the case of reasonably probable changes in the exchange rate of the Russian ruble against the US dollar and the euro:

	At 31 December 2020		At 31 December 2019	
	USD	EUR	USD	EUR
Ruble appreciation	(5 483)	8 756	(1 568)	4 225
Ruble depreciation	5 483	(8 756)	1 568	(4 225)

Limitations of sensitivity analysis. The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities might be non-linear thus, the results should not be interpolated or extrapolated.

National Settlement Depository

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued) (in thousands of Russian Rubles)

31. Risk management policies (continued)

The sensitivity analysis does not take into consideration that NSD's assets and liabilities are actively managed. Additionally, NSD's financial position may vary at the time that any actual market movement occurs. For example, NSD's financial risks management strategy is aimed at managing the exposure to market fluctuation. In the event of sharp negative fluctuations of prices on the securities market, management actions could include selling investments, changing trade portfolio structure and taking other protective actions. Consequently, changes in assumptions may have no effect on liabilities while significantly influencing assets recorded at fair value in the statement of financial position. In these circumstances, different measurement bases for assets and liabilities may lead to significant equity fluctuations.

Other limitations of the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent NSD's view of future market changes that cannot be predicted with any certainty. Another assumption is that all interest rates change in a similar way.

Price risk. Price risk is the risk of potential losses as a result of adverse changes in the value of financial instruments.

The basis for assessing price risk is the value of securities that are measured at fair value through profit and loss and available for sale.

The procedure for calculating indicators that characterize the magnitude of price risk is determined by the Financial Risk Assessment Method of NSD, approved by NSD's Executive Board. If there is a portfolio of securities that are sensitive to changes in market value, a sensitivity analysis is made to the possible changes in market value, which will coincide with the sensitivity of changes in interest rates (Note 31 Interest Rate Risk).

In order to manage price risk, limits on investments in financial market instruments, limits on the maximum loss from investing in financial market instruments and other limits, as appropriate, may be established.

Operational risk. Operational risk is the risk of direct or indirect losses arising from a wide variety of risk events associated with the internal processes, personnel, technology and infrastructure, and from external factors (other than credit, market and liquidity risks) such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior or IT failure.

Effective operational risk management helps to balance mitigation of financial losses and reputation damage with the overall cost effectiveness and redundant control procedures that restrict initiative and creativity.

NSD's Supervisory Board has overall responsibility for the oversight of operational risk management, reviewing risk management policies and procedures. The risk assessment, reporting and control procedures vary by exposure type, but share a common methodology developed and updated periodically by the risk management personnel.

National Settlement Depository

Notes to the Financial Statements
for the Year Ended 31 December 2020 (continued)
(in thousands of Russian Rubles)

31. Risk management policies (continued)

Both external and internal risk factors are identified and managed throughout the business units within their functional duties. The primary responsibility for the implementation of controls to address operational risk is assigned to management within each business unit.

Operational risk factors include:

- Performers error at any stage of the operation, including in manual or automated data processing;
- Faults and failures in the hardware and software, i.e. disrupt the normal functioning of computer systems and (or) communication systems supporting the main activities of NSD;
- Loss of information, disclosure of confidential information, unauthorized access to information technology resources.

The elimination of manual processing of information is one of the ways to reduce the level of operational risk. NSD is constantly working to automate the processes of receiving, transmitting and processing information as much as possible. To minimize staff errors, NSD operates a system of multi-stage preliminary, ongoing and subsequent control over the performance of employees' official duties in accordance with the requirements of regulatory documents, as well as orders, regulations and other internal regulatory documents of NSD.

Operational risk management also includes overall control of the levels of legal, regulatory and reputational risks.